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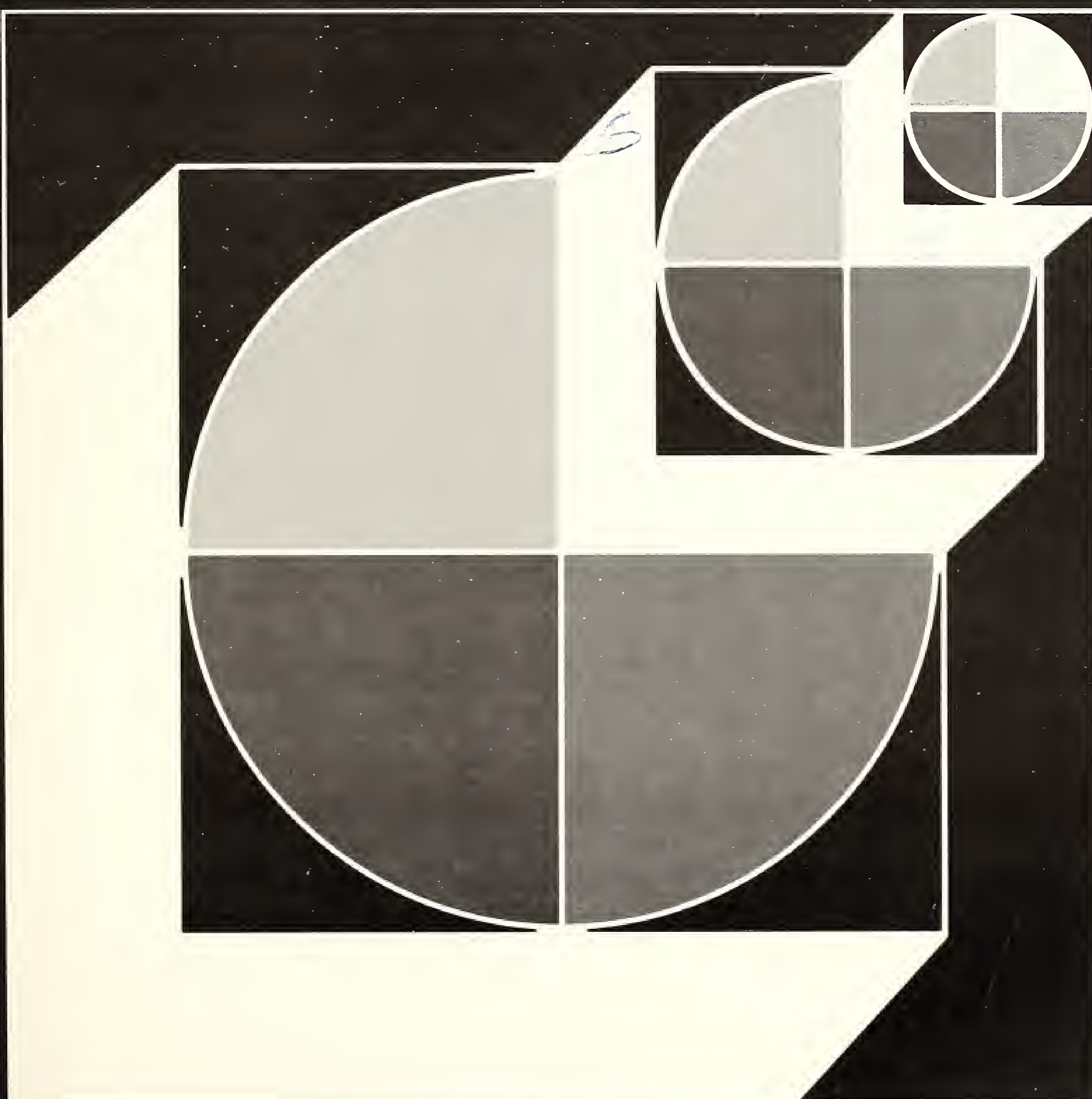

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Family Economics Review

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New Savings and Transaction Instruments

By Colien Hefferan
Economist

In recent months two new financial instruments, the money market deposit account and the super NOW (negotiable order of withdrawal) account, have been introduced at banks and thrift institutions.[1] These two accounts are the latest financial instruments to become available as the result of the 3-year process of deregulation of the Nation's financial institutions. Since passage of the Depository Institutions Deregulation and Monetary Control Act of 1980 (P.L. 96-221)[2] and the Depository Institutions Act of 1982 (P.L. 97-320), more than a dozen new instruments, including savings and transaction accounts[3] and certificates of deposit, have been approved for banks and thrift institutions. When the provisions of these laws are fully implemented, federally imposed limits on interest rates, deposit amounts, and time requirements for certificates of deposit will be lifted, and the number and types of accounts offered will be greatly expanded. Only passbook savings and regular NOW accounts will continue to have interest rate limits.

The deregulation of savings and transaction accounts and authorization of new types of accounts is administered through the Depository Institutions Deregulation Committee (DIDC) established in 1980. The DIDC is comprised of members representing the Federal Reserve Board, Federal Deposit Insurance Corporation, Federal Home Loan Bank Board, National Credit Union Administration, U.S. Department of the Treasury, and Comptroller of the Currency. DIDC decisions are binding on all federally insured banks and thrift institutions, which account for about 96 percent of banks and 87 percent of thrifts.[4] Other institutions--such as brokerage firms, mutual funds, and retailers--offering financial instruments set the terms for those instruments individually. Savings and transaction instruments offered by these firms are usually developed to reflect market conditions.

The introduction of numerous new financial instruments, coupled with the deregulation of terms on many existing accounts, poses a challenge to savers and investors trying to decide how best to arrange their finances. This article reviews several new financial instruments and examines ways of evaluating the appropriateness of each for meeting financial needs.

Money Market Deposit Accounts

The money market deposit account (MMDA) is a federally insured savings instrument with limited transaction privileges. The DIDC authorized issuance of this account beginning in December 1982. The MMDA was developed in accordance with provisions of the 1982 Depository Institutions Act to provide banks and thrift institutions with an instrument directly competitive with money market mutual fund shares. Money market mutual fund shares (uninsured, market-based savings and transaction instruments offered by brokerage firms and investment companies) grew from less than 0.1 percent of all additions to individual assets in 1977 to 23.1 percent in 1981 (2).

MMDA's require a minimum deposit of $2,500, although institutions may set a higher minimum and deposit rate if they wish. There is no Federal interest rate

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[1] Includes savings and loan associations, mutual savings banks, and credit unions.

[2] For more information, see abstract in Family Economics Review, spring 1981, p. 25.

[3] Transaction accounts include all financial instruments with checking, electronic funds transfer, and other third-party payment privileges.

[4] As of December 1982, the Federal Deposit Insurance Corporation insured deposits at 14,802 of the 15,449 banks operating in the United States. As of July 1983, the Federal Savings and Loan Insurance Corporation insured deposits at 3,130 of 3,612 operating thrift institutions.

ceiling for accounts in which the average daily balance, computed on a monthly basis, remains above $2,500. The maximum allowable interest rate for accounts where the balance drops below $2,500 is 5.50 percent, however. Interest rates may be guaranteed for up to 1 month and MMDA's may be issued with a specific maturity of up to 30 days. Some institutions pay interest rates that vary according to the balance maintained in the account. For example, they may pay one rate for balances up to $5,000 and a higher rate for balances above that amount.

The transaction privileges on MMDA's are limited to no more than six third-party transfers per month, including three checks; however, account owners can make unlimited deposits and withdrawals in person. Fees charged for transactions vary widely among institutions. There are no Federal regulations setting or limiting service charges. Many institutions charge no fees for MMDA's; others impose fees only when the minimum balance drops below $2,500. Among institutions that charge fees, the arrangements may be complicated and costly, usually involving a monthly fee and a fee for each transaction.

Consumer acceptance of MMDA's has been immediate and unprecedented. In the 4 months following their introduction, $340 billion flowed into these accounts, an amount equivalent to the level of deposits in 6-month money market certificates 2 years after their introduction (1). One reason for the initial success of these accounts may have been the high introductory interest rates they offered. When first introduced, the average yield on MMDA's exceeded that of money market mutual fund shares by about 2-1/2 percentage points (1). Since then the differential between rates has persisted, though narrowed (see table 1).

The rapid growth in balances held in MMDA's has been the result of shifts from several types of savings instruments. The high interest rates initially offered on MMDA's made these accounts more attractive

Table 1. *Interest rates on selected financial instruments, December 1982 to September 1983.*

Date	Money market mutual fund	Money market deposit account	Super NOW account
December 1982	8.2	10.6	NA[1]
1983:			
January	8.0	9.0	7.6
February	7.8	8.3	7.3
March	7.8	8.2	7.3
April	8.0	8.3	7.4
May	7.8	8.2	7.2
June	7.9	8.2	7.2
July	8.2	8.4	7.5
August	8.5	8.5	7.4
September	8.6	8.7	NA[1]

[1] Not available.

Sources: Furlong, Frederick T., 1983, New deposit instruments, Federal Reserve Bulletin 69(5):319-326. Unpublished tabulations from the Federal Reserve Board.

than most short-term instruments. Some MMDA balances have come from withdrawals from money market funds, assets in which have declined about 20 percent during the past year (2). Survey data indicate that some savers shifted funds from Treasury securities and other interest bearing investments to MMDA's (1). Most MMDA deposits, however, are estimated to be the result of shifts from savings and small denomination time accounts held at banks and thrift institutions. As a result of these shifts, about three-fourths of the balances in small denomination, ceiling-free savings accounts and interest bearing checking accounts at banks and thrift institutions earn variable, market-determined rates of return.

Super NOW Accounts

The super NOW account is a fully transactional, interest-bearing checking account. The DIDC authorized banks and thrift institutions to offer the account beginning in January 1983. Super NOW's are a hybrid of existing, low interest-bearing checking accounts (e.g., NOW accounts) and the new MMDA's. Super NOW's have unlimited transaction privileges, require a $2,500 initial deposit and minimum balance, have no interest rate ceiling, except for account balances below the minimum, and cannot offer interest rate guarantees exceeding 1 month. Like the MMDA, balances in super NOW accounts are federally insured up to $100,000. Unlike the MMDA, however, financial institutions must hold 12 percent of depositor balances in reserve; that is, it cannot be invested by the institution.

The reserve requirements and the potential volume of transactions make the super NOW account a relatively expensive financial instrument for institutions to offer. The costs of operating the accounts are recovered by paying interest rates somewhat lower than those offered on MMDA's and charging service fees. Since their introduction in January 1983, interest rates on super NOW accounts have been about 1 percentage point lower than rates offered on MMDA's (see table 1). Some institutions pay no interest on the portion of the account held to meet reserve requirements. Fees charged for super NOW accounts are usually based on number of transactions and average monthly balance.

Super NOW accounts are offered by most banks and thrift institutions, but have not been heavily promoted; therefore, growth has proceeded at a relatively slow rate. While the pace of establishing new super NOW accounts has not been rapid, the size of accounts established is large. Balances held in super NOW accounts at commercial banks averaged $13,500 in March 1983, compared with $5,000 in regular NOW accounts (1).

Most funds attracted to super NOW accounts have been from other transaction accounts such as regular NOW accounts, automatic transfer accounts,[5] and share draft accounts at credit unions. Ceiling-free super NOW accounts comprise about one-fourth of the interest-bearing, transaction deposits held at banks and thrift institutions.

Evaluating the New Instruments

Banking deregulation and increased competition in the financial services industry has resulted not only in the introduction of new financial instruments but also a broader range of interest rates, fees, and penalties offered on accounts. While the financial instruments offered to consumers may have the same or similar sounding names, the specific terms on accounts can now vary greatly among service providers. Deciding which account best meets consumer needs is a three-step process. First, consumers need to assess the type of financial services they need; second, select the type of account that best meets those needs; and third, evaluate terms offered by different financial service providers on the type of account selected.

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[5]Automatic transfer accounts, usually known as "sweep" accounts, combine the high interest features of money market deposits and the unlimited checking of NOW accounts. In these accounts, balances above a preset amount are automatically transferred from a NOW account to a money market account. These instruments were promoted briefly by banks and thrift institutions prior to the introduction of MMDA's and super NOW accounts.

Three factors determine the financial service needs consumers have for savings and transaction accounts: Attitude toward financial risk, number and size of transactions each month, and size of balances typically maintained. Table 2 presents a summary of the characteristics of MMDA's and super NOW accounts, as well as their prime competitor, money market mutual funds, as they apply to these factors. It also includes two additional criteria, cost and convenience.

Money market mutual funds best serve the needs of those who do not feel the need for a federally insured depository of their funds, who plan to use the account for only large transactions, and whose account balance may occasionally fall below $2,500. While there have been no reported safety problems with money market mutual funds, the accounts are not insured, therefore exposing depositors to some risk of loss in the event of problems with the fund. Transaction privileges with money market mutual funds are usually not limited in number but often must be a minimum amount, frequently $500. The chief advantages of money market mutual funds are that the full interest rate is paid on the entire balance in the account and transaction fees are not usually assessed.

Money market deposit accounts serve the needs of those who are risk averse and, thus, seek federally insured depositories for their funds, who plan to use the account for few transactions, and who maintain relatively large balances in their account. Some MMDA's offer sliding interest rates, providing higher rates for higher balances, making these accounts especially valuable for those with high average balances. The major disadvantage of MMDA's is the reduced rate of interest paid on balances that fall below $2,500.

Super NOW accounts meet the needs of those seeking a federally insured instrument for their funds, who plan to write many checks on the account each month, and who plan to maintain a balance in excess of $2,500. Fees assessed on super NOW accounts are often high, however, and interest rates are usually lower than those offered on money market mutual funds and MMDA's.

The decision to select a specific account from among those offered by several financial institutions is based on finding the best combination of interest, fees, and convenience. The complicated task of comparing several factors at one time is simplified by calculating the net rate of earnings on each account offered. This calculation takes into consideration the effect of service charges on the yield of an interest-bearing account.

Table 2. *Selected criteria for evaluating interest-bearing transaction instruments*

Instrument	Safety	Liquidity	Yield	Cost	Convenience
Money market mutual fund shares	Uninsured.	Usually unlimited number, but minimum amount for 3rd-party transactions.	Market rate, varies daily; paid on entire balance.	No direct service charges; costs paid from yield.	Convenience high for large transactions; deposits and withdrawals can usually be made by mail or wire.
Money market deposit account	Federal insurance up to $100,000 per account.	Unlimited personal deposits or withdrawals; 6 3rd-party transactions per month.	Market rate, varies at least monthly.	Some assess fees for maintenance and transactions.	Convenience high for limited transactions.
Super NOW account	Federal insurance up to $100,000 per account.	Unlimited number of direct and 3rd-party transactions, of any amount.	Slightly less than market rate, varies at least monthly.	Usually assess fees for account maintenance and transactions.	Convenience very high for all types of transactions.

The formula is:

$$\text{Net rate of earnings} = 100 \times \left[\frac{\left(\begin{array}{c}\text{Average} \\ \text{annual ac-} \\ \text{count balance}\end{array} \times \begin{array}{c}\text{Stated} \\ \text{rate of} \\ \text{interest}\end{array} \right) - \begin{array}{c}\text{Annual} \\ \text{service} \\ \text{charges}\end{array}}{\text{Annual average account balance}} \right]$$

For example, in an account with an average annual balance of $2,500, annual service charge of $60, and an 8-percent stated rate of interest, the net annual rate of earnings is 5.6 percent.

Other factors, such as method selected for determining the account balance, penalties imposed for excessive transactions, and other services offered with the account (e.g., free travelers checks or waiver of credit card fees) influence the cost and convenience of financial instruments. The effects of these factors are usually small, however, compared to the effects of interest rates and service charges.

New financial services and instruments offer the opportunity to earn market-determined rates of return on funds held for future needs and current transactions. The cost of earning these relatively high rates of return, however, may be passed on to consumers in the form of higher charges for financial services. The new savings and transaction accounts incorporate both these costs and benefits.

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2. Hefferan, Colien. 1983. Household wealth: 1962-81. Family Economics Review 1983(3):2-8.

Electronic Funds Transfer

Rapid improvements in electronic data processing and the development of low-cost, high-speed telecommunications have made possible the widespread use of electronic funds transfer (EFT) by consumers. In many transactions, EFT can now largely replace other methods of payment, such as checks, cash, and credit cards. Nonetheless, EFT's still collectively account for less than 1 percent of all payments in the retail economy.

The extent to which EFT spreads depends on the automation of operations by financial institutions, the extent to which institutions make EFT available to consumers, and the willingness of consumers to accept EFT as a means of payment. Evidence indicates that EFT has grown rapidly during the past several years and is poised for further expansion. For example, a Federal Reserve Board-sponsored study conducted in April 1983 found that of households with checking, savings, NOW, or share draft accounts, more than 68 percent had an account with an EFT feature and used this feature at least occasionally; 2 years earlier the proportion was 54 percent. The number of commercial banks offering access to automated teller machines (ATM) increased from 19 percent in 1981 to 29 percent in 1982. There is evidence of similar growth in consumer use of automated teller machines. Surveys indicate that 71 percent of all households have at least one account at a financial institution that offers ATM access and that at least one person in 32 percent of the households used an ATM in November 1982.

Electronic funds transfer offers consumers convenience and self-service in financial and retail transactions. EFT also provides a potentially inexpensive alternative to other forms of payment, particularly checks. Checks are estimated to cost as much as 50 cents each to process. With expansion in EFT volume, electronic transfers may become a far less expensive method of payment.

Consumers have encountered few problems with account errors and unauthorized transfers using EFT. The Electronic Funds Transfer Act of 1978 provides error resolution procedures and limitations on liability for unauthorized transfers.

Source: Schroeder, Frederick J., 1983, Developments in consumer electronic funds transfer, Federal Reserve Bulletin 69(6): 395-403.

Creative Residential Finance

By Carolyn Summers Edwards and Isabelle S. Payton
Economist and social science analyst

Unexpectedly high and volatile interest rates and inflation have required individuals and families to manage their resources more carefully than ever before. Achieving the goal of home ownership has required understanding and choosing between a vastly increased array of financing options. Seeking to reduce their risks, institutional lenders have presented would-be home buyers with a wide variety of alternative mortgage instruments (AMI's).[1] These instruments modify the basic characteristics of the standard, fixed-rate, level-payment mortgage (SFPM) and require borrowers to bear higher costs and/or share interest rate risks. SFPM's that are still offered generally carry higher interest rates than AMI's.

Reluctant to accept the risks and uncertainties inherent in AMI's and unable to afford the costs of SFPM's offered by institutional lenders, buyers and sellers have turned to each other. During 1980 and 1981 a home purchased with a cash down payment and a newly originated institutional first mortgage or deed of trust tended to be the exception rather than the rule. A wide variety of "people-to-people" or creative finance techniques that minimized the reliance on traditional institutional lending sources and that sidestepped AMI's and high interest rates enabled buyers and sellers to complete their transactions.

Creative residential finance may be characterized by its custom-tailored nature. The individual transaction is structured to satisfy the specific needs of the buyer and/or seller. Generally, however, creative finance techniques share in common the preservation of an existing first mortgage or deed of trust and/or involvement on a short- or long-term basis by the seller. To find an affordable means to buy and sell their homes, sellers assume the risks of acting as lenders, and buyers enter into comparatively short-term agreements and often accept higher prices (2, 8, 11) with the hope that their personal finances or other financing alternatives will improve.

Even though the decline in interest rates has reduced the need for creative finance, it is not likely that these techniques will disappear altogether. There will be a continued need for methods that provide for manageable down and monthly payments and that meet the varied needs of buyers and sellers. This article reviews the characteristics of creative residential finance techniques and some of the issues involved. The focus is on transactions between buyers and sellers of properties used as primary residences rather than on properties held for business or investment purposes. The techniques discussed are selected on the basis of whether their use may involve preservation of an existing loan and/or seller involvement. Readers should remember that terminology varies substantially and that use of these techniques will be influenced by the laws of the State and jurisdiction in which a property is located.

Assumption

Assuming a seller's first mortgage has been the technique that has provided the foundation for most creative finance agreements. By preserving existing loans, buyers are able to take advantage of interest rates on these loans that are often substantially lower than current market rates. An assumption can make a purchase possible for a buyer who otherwise could not qualify for a loan at current rates. Assuming an existing loan also means that a greater proportion of each payment goes to reducing the principal (13, 14, 15).

Transactions typically referred to as assumptions can take one of two forms. When a purchaser simply takes over the payments on an existing loan, ownership is transferred "subject to" the existing mortgage. Personal liability for the loan remains with

[1]AMI's have been discussed in several previous articles in Family Economics Review by Carolyn Summers Edwards: "New Mortgage Designs," fall 1978, pp. 8-16; "Alternative Mortgage Instruments," 1982(4):1-18; and "Update: Alternative Mortgage Instruments," 1983(3):26-27.

the seller. In the event of default and foreclosure the buyer can lose the house and any equity in it, but the seller remains responsible for any deficiency in the unlikely event that a foreclosure sale brings insufficient funds to cover the loan. In a true assumption the existing loan is transferred from the seller to the buyer. The buyer becomes personally liable to pay.

"Subject to" agreements are made between buyers and sellers. The lender of the existing loan may or may not be involved. Buyers should be certain that by entering into such an agreement the seller will not violate the terms of the existing loan. In the case of "subject to" agreements where a lender is involved, the lender will typically charge a fee to cover the paperwork involved in accepting payments from the new buyer; in the case of true assumptions, additional fees are generally charged to cover costs of credit checks and changing the loan papers. Even if a loan is legally assumable, the lender is not obligated to release the original borrower from liability. In this way the lender can protect himself from the risk that an unqualified buyer will assume the loan.

Sellers who enter into "subject to" agreements or assumptions without a release from liability are wise to inform their lenders of the transfer and to ask for notification in the event the new buyer defaults so that they can intervene in the event of a threatened foreclosure. Sellers seeking complete release from liability will need to satisfy the lender and any insurer that the individual assuming the loan is credit worthy. Lenders may not agree to the release, may alter the terms of the loan,[2] or require additional fees for the transaction.

Many loans are not assumable because they contain a due-on-sale or alienation clause that permits the lender to consider the loan due and payable on sale or transfer of the property. Until recently lenders did not enforce these clauses. With high and volatile interest rates, however, lenders experienced losses when their costs of borrowing short-term funds exceeded their earnings on outstanding long-term loans. Widespread use of creative finance techniques that legally or illegally sidestepped due-on-sale clauses slowed the turnover of loans and exacerbated lenders' problems (4, 5, 16, 17). In response, lenders turned to AMI's, high rate SFPM's, and a concerted effort to enforce due-on-sale clauses.

As a result of lenders' efforts to block assumptions through the exercise of due-on-sale clauses, the legality of these clauses was called into question and the status of loans became confused. Eighteen States took legislative or court action to ban or restrict the enforcement of due-on-sale clauses. Loans with these clauses were or were not assumable depending on varying policies of lenders and holders of mortgages and pending court actions.

Resolution of the controversy began in June 1982 when the U.S. Supreme Court, in the case of Fidelity Federal Savings and Loan Association v. de la Cuesta, affirmed the right of federally chartered savings and loan institutions to enforce due-on-sale clauses, even in States with laws or court decisions prohibiting lenders from doing so. This right was extended in October 1982 to State-chartered lenders, as well as those under the jurisdiction of the Comptroller of the Currency (COC) and the National Credit Union Administration (NCUA), by the Garn-St. Germain Depository Institutions Act of 1982. This act established a uniform national policy governing the use and enforcement of due-on-sale clauses. Regulations implementing the act identify lenders subject to the regulations, provide for preemption of State laws restricting the right of lenders to enforce due-on-sale clauses when all or any part of the real property securing the loan is sold or transferred without the lender's prior consent, provide for limited exceptions to this power, and describe specific circumstances (such as divorce or death of the borrower) in which lenders may not exercise due-on-sale clauses (6).

Many loans are still assumable, however. With exception of some restricted loans recently made through State financial agencies, all FHA-insured and VA-guaranteed

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[2] See section on blended mortgages, p. 12.

mortgages are assumable, including those currently being written. Conventional loans that do not contain due-on-sale clauses, sometimes referred to as "silent loans," are assumable. These loans were probably written before 1970.

In some situations, a loan may be assumable even though it contains an enforceable due-on-sale clause. For example, the Federal National Mortgage Association (FNMA or Fannie Mae), a secondary mortgage market agency that holds mortgages purchased from lenders to supply funds for additional loans, will not enforce due-on-sale clauses in loans that were in its portfolio prior to November 10, 1980.[3]

Finally, the Garn-St. Germain Act made provisions for limited, continued assumability of loans containing due-on-sale clauses that were originated or assumed in a State when laws preventing enforcement of such clauses were in effect. State restrictions on enforcement of due-on-sale clauses will apply until October 15, 1985, to loans issued by State-chartered lenders that were made or assumed during a "window period" specified as beginning with the date the State restriction became official and ending with the signing of the Garn-St. Germain Act (October 15, 1982). State legislatures may act prior to October 15, 1985, to regulate terms of these "window period" loans and, in doing so, extend the State restriction on the enforcement of the due-on-sale clauses in these specific loans to a period after October 15, 1985.[4] Similar authority to regulate "window period" loans was given to the COC and the NCUA. No window period applies to loans written by federally chartered savings and loan institutions.

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[3]See later section on blended mortgages, p. 12.

[4]States eligible for this extension option have been identified as Arizona, Arkansas, California, Colorado, Georgia, Iowa, Michigan, Minnesota, Mississippi, New Mexico, Utah, and Washington. This list is subject to interpretation of these States' laws, however.

The main disadvantage to an assumption is that the buyer generally needs a large downpayment and/or additional financing to compensate for the difference between the purchase price and the outstanding balance on the assumed loan. Generally, the older the loan the lower the interest rate but the smaller the outstanding balance. Many of the creative finance techniques discussed below are methods to come up with this additional financing. Many of these techniques put the seller in the role of lender, deferring part of the proceeds of the sale.

Buyers must shop carefully to be sure their total creative financing package is better than a new loan at current rates. Purchase price, interest rate, downpayment, monthly payments, total financing costs, the duration of the package, the need for and availability of refinancing, and the buyer's tax position are some of the factors that must be considered. Buyers who can obtain alternate financing may find that they can negotiate better selling prices by avoiding seller-backed financing. Comparison shopping is made difficult, however, because standard disclosures are not required with seller-backed agreements. The custom-tailored nature of creative finance techniques sidesteps the standard forms used by institutional lenders and, thus, eliminates many of the protections in those forms.

Seller-Held First Mortgage or Deed of Trust

Sometimes the seller will take the position as lender of the first mortgage or deed of trust. The seller agrees to sell to a buyer for a stated price and the purchaser agrees to a certain amount down on the price. The seller defers the remainder of the proceeds otherwise due from the sale and "takes back" a first mortgage for the remainder of the sales price. Such loans are sometimes referred to as seller "take-backs" or purchase money mortgages and are subject to State usury laws.

This can be a good investment for a seller who is in a financial position to defer receipt of a major proportion of the proceeds of the sale. This may be possible, for example, when a seller does not need to rely on the proceeds to purchase a replacement property, when he can arrange similar creative financing, or when he can use the paper

from his buyer as collateral toward another purchase. The advantages to the buyer can include a lower interest rate than on a newly originated institutional loan and lower settlement fees. The seller may waive an appraisal, and there is generally no loan placement fee.

In taking the position of lender--by offering to hold the first mortgage or through other techniques discussed in this article--the seller must be particularly careful to screen potential buyer/borrowers and secure a sufficient downpayment. Would-be sellers acting as lenders should be sure that their decison to lend is based on a thorough evaluation of the effect of the transaction on their financial situation. Seller/lenders need to consider the possible costs and benefits of receiving their money over the period of the loan and the difficulties of possible foreclosure proceedings. They will want to be sure that every precaution is taken that the loan agreement includes the necessary provisions and protections and may want to have the agreement written so that they can use the money owed as collateral for a new loan.

Programs offered by the secondary mortgage market agencies, the Federal Home Loan Mortgage Corporation (Freddie Mac) and FNMA, can help sellers avoid some of the difficulties involved in acting as lenders by providing a way to cash in their otherwise illiquid asset. Both agencies will buy first mortgages or deeds of trust that have been originated with the help of an approved insititutional lender, that comply with certain lending principles regarding appraisal and credit checks, and that meet certain other criteria. The lending institution handles the credit report, loan application, appraisal, and underwriting and continues to service the loan. Should the seller/lender decide to sell the paper, the lending institution will obtain a commitment from the secondary institution to buy at a price determined by market conditions at the time. By incurring the cost of dealing with a lending institution rather than an attorney, the seller/lender obtains the ability to sell the paper at a later date should he choose, administrative and servicing work, and avoids the potentially high cost and problems associated with trying to sell nonstandard paper at a later date. There will also be no disruption for the buyer should the seller/lender decide to sell the paper; the lending institution will continue to service the loan. Dealing with a lending institution in setting up seller-financed mortgages can also make those loans eligible for private mortgage insurance, adding additional security and protection for the seller/lender in case of borrower default.

Second Mortgage/Second Deed of Trust

The second mortgage or second deed of trust is the most frequently used method to bridge the gap between the purchase price and the combined funds available from a downpayment and from an assumed or a new first loan. A second mortgage is a loan secured by the property and is junior to the first mortgage. The first mortgage gives the lender the initial claim against the value of the property if the buyer defaults; only after the first mortgage or trust has been satisfied can any remaining assets be used to pay off the second. Because of the greater risk involved, seconds carry higher interest rates than first mortgages. When combined with a below-market rate assumption, though, the payments on the total financing package usually are lower than those on a new first loan at current market rates.

Seconds may take one of two general forms depending on the source of the loan. As in the case of seller-held first mortgages, second mortgages from the seller are referred to as seller "take-backs." Also referred to as deferred purchase money trusts, these are described as "soft" money transactions because no cash changes hands. The seller defers receipt of the proceeds of the sale. The second type of second mortgage or deed of trust is available from banks, credit unions, mortgage companies, finance companies, and individual lenders. These "hard" money loans involve actual money transfers and generally carry higher interest rates and stiffer terms than seconds held by

sellers, but may provide a means of assuming a loan when the seller doesn't want to be involved.

Regardless of their source, seconds are generally short term loans--typically 3 to 5 years. Because of the short term, they can be self-amortizing only if they have very high payments. To feature the small payments often needed, seconds typically are balloon loans; the payments cover interest only, or are calculated as if the payments will continue for 20 or 30 years. The entire balance becomes due at the end of a shorter period, however.

Payments may be deferred altogether for several years with a "sleeping second." This arrangement may be used when a buyer will have difficulty handling the payments on two loans or qualifying for a new first mortgage. The lender, who may be the seller, holds the second mortgage with no payments for the first few years. This makes it easier for the buyer to qualify for a new first mortgage because the lender of the first mortgage doesn't consider the deferred payments as part of the current debt.

Seconds have been widely used in recent years. Indeed, seller "take-backs" have been the primary creative finance tool to enable buyers to assume below-market rate loans. They have often been the catalyst that made the difference between a sale/purchase and none.

Some lenders do not permit secondary financing or restrict its use depending on the proportion of the value of the property being financed. It is important to have written agreement from the lender of the first loan when a second mortgage is used to finance part of the purchase.

Second mortgages are subject to State usury restrictions. Although some institutional lenders may be exempt from such restrictions, private lenders rarely are.

Buyers who purchase with short-term balloon seconds take the risk that they will be able to get affordable refinancing. In some cases the agreement allows for an extension in the event the borrower is not able to get financing that meets certain criteria. Sellers who choose to defer the proceeds of their sale by taking back a second must be aware of the potential risks involved in assuming that their buyers will be able to refinance their short-term notes. Dealing with institutional lenders to obtain mortgage insurance and/or to insure the salability of their notes may lessen the potential problems.

Wraparound

Wraparound financing is another method of providing the additional funds a buyer may need when an existing first mortgage is preserved (1, 10, 18, 19). Sellers or lenders unwilling to offer a separate second mortgage will sometimes agree to a wraparound because they retain some control over the liens on the property.

Also referred to as an all-inclusive deed of trust, a wraparound is a second mortgage with a note that encompasses the balance on the first mortgage. The lender, typically the seller, provides the new loan to the buyer for the difference between the purchase price and the downpayment. The buyer makes payments on the new loan to the wrap lender, who continues to make payments on the existing first mortgage. The term of the wrap is typically equal to that remaining on the first mortgage. Wraps are usually written at a rate between that on the existing first mortgage and the current market rate. The required downpayment and monthly payments are lower than would be required with a newly originated conventional mortgage.

There are several advantages to this type of financing. By preserving the existing first mortgage, the buyer gets financing for the entire amount needed at below current market rates yet does not have to face refinancing a shorter-term second mortgage. The wrap lender is earning interest on the full amount of the new loan but only advancing (deferring, if the seller is acting as lender) the difference between the total financing and the outstanding balance on the existing loan. The lender continues to reduce the balance on the lower rate first loan and earns the higher rate on the spread between the existing loan balance and the wrap. If a third party acts as the wrap lender, the seller receives the full proceeds from the sale and does not have to be involved in the financing.

There are a number of potential problems with wraparound financing, however. It is important that payments continue to be made on the existing mortgage. If the buyer is concerned about this, he can arrange to make the monthly payments to the wrap lender with two checks: one to the holder of the first loan and the other to the wrap lender for the remainder of the payment due. The cancelled checks serve as an indication that payments have been received on time.

The wrap lender may want to limit the borrower's ability to refinance or prepay the loan to ensure a satisfactory return on the investment. This could present difficulties for the buyer should he want to sell.

Although the seller continues to pay off the first mortgage, title is conveyed and a deed is recorded. Wraps can only be written with assumable first loans. It is important to be sure that the existing first mortgage does not contain a due-on-sale clause that would be violated by the wrap agreement. Similarly, some lenders do not permit secondary financing. It is important to have written agreement from the holder of the existing first mortgage when a wrap is made.

Since the wrap lender's yield on the funds advanced is higher than the nominal rate on the note, wraps must be constructed carefully to avoid violation of usury restrictions. Wraparound agreements are illegal in some States.

Land Contract

The buyer with a land contract makes a down payment and monthly payments directly to the seller, who retains title to the property until the contract is paid off or until an agreed upon condition is met. Also referred to as a contract for deed, an installment contract, or a conditional sales agreement, the land contract is generally considered a risky way to buy or sell and is generally treated as a temporary measure. The land contract generally only stipulates the financial arrangements of the transaction and the rights and obligations of the parties during the payment period. The terms and conditions of sale are not detailed and a deed is not recorded in the buyer's name. Because the seller holds title, there are few protections for the buyer against the seller encumbering or transferring the title.

The land contract is often suggested as a means to purchase when the buyer has little or no money for a downpayment and monthly payments. It has also been used as an alternative to a wraparound agreement to circumvent due-on-sale clauses or restrictions on secondary financing. In establishing those cases where lenders may exercise the due-on-sale clause, however, regulations implementing the Garn-St. Germain Depository Institutions Act of 1982 specifically included land contracts in the definition of sale or transfer (even though title is not conveyed).

Because of the potential problems involved, buyers and sellers should be particularly cautious in entering into land contract agreements. It is important that the contract cover certain essential elements, that the contract be recorded, and that the title and a deed be placed in trust.

Blended Mortgage

A blended mortgage is a new loan offered by an institutional lender to cover the total amount financed--the balance on the existing loan as well as the extra funds needed to finance the purchase. The interest rate is below the current market rate but higher than the rate on the existing mortgage. The lender "blends" the below market rate on the existing loan with a market or slightly above market rate on the remaining amount needed to arrive at a rate somewhere in between.[5]

A blended mortgage offers the buyer an alternative source of funds for financing the purchase when the seller does not want to be involved, and may be a better deal than a wraparound, an assumption with a seller-held or institutional second, or a totally new market rate loan. It may also offer an alternative to the land contract

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[5]Although this method doesn't fit the creative finance definition of preservation of an existing mortgage and/or seller involvement, it is included because of its link to the original loan and its contrast to other techniques used to provide financing sufficient to enable the purchase.

that could be used where the existing loan is not assumable. The blended mortgage offers the seller the advantage of receiving the entire proceeds of the sale at settlement with no further involvement, and enables the lender an opportunity to retire a low-yielding loan. Blends may be offered by the lending institution that originated the existing loan or by another institution if the existing loan is assumable.

Lenders often sell their loans in the secondary market to obtain funds to originate new mortgages. If the existing loan has been sold to FNMA, the FNMA Resale Finance Program, which was begun in early 1981, may be a source for a blended loan (9, 12). This program offers up to 95 percent new financing on homes securing mortgages that FNMA owns. Terms on the new loans vary depending on the outstanding balance and interest rate on the existing loan, the number of years left to repay, and the amount needed and repayment term on the new loan.

The new loan is issued through an FNMA-approved institutional lender. The buyer must meet FNMA credit guidelines and the home must meet FNMA appraisal criteria. The new loan can be a fixed rate, an adjustable rate, or a graduated payment adjustable rate mortgage.[6] The fixed rate loans carry a higher interest rate. The new loan will be asumable for 1 year and contain an enforceable due-on-sale clause.

Owners or would-be buyers can check with the lender who originated the current loan to see if it has been purchased by FNMA. Lenders generally continue to service loans even if they have been sold. Since loan origination fees and other costs vary substantially, parties interested in arranging a blend, whether through the FNMA program or not, should shop around among lenders.

Buy-Down

In a buy-down arrangement the seller subsidizes the purchase by prepaying a portion of the interest on the buyer's loan (3, 7). A lump sum of money is placed in an escrow account at settlement and used to supplement the monthly payments according to a preset schedule. The mortgage is written for the full, current market interest rate, but the buyer pays at the "bought-down" interest rate during the buy-down period. The balance of the monthly payments comes from the escrow funds.

Buy-downs are most typically arranged in the context of the purchase of a new home. The builder makes a nonrepayable, direct subsidy and isn't involved beyond settlement. Buy-downs may also be arranged in the resale situation. For example, a seller with a nonassumable mortgage may offer to improve a blended mortgage offered by the original lender by buying it down. Buy-downs can also be repayable, such as in a "sleeping" second that is to be repaid to the seller at some agreed upon time after the buy-down period.

The interest rate on loans may be bought down temporarily, such as for the first few years, or for the life of the loan. Subsidy payments made during the buy-down period may be in equal amounts or according to a graduated schedule. For example, the interest rate could be bought down 2 percentage points during the first 5 years or it could be bought down 3 points the first year, 2 points the second year, and 1 point the third year. The buyer begins making the full payments called for by the contract interest rate of the loan at the end of the buy-down period.

A buy-down can make the difference between whether a would-be buyer can qualify for a loan or not. The higher payments that accompany higher interest rates require higher incomes to qualify. Lenders qualify buyers on the basis of their ability to make the monthly payments and can use the initial lower payments in a buy-down period rather than what the payments will be at the end of the buy-down. A buy-down can make a substantial difference in the size of the monthly payments. Money used to buy down the interest rate reduces the monthly payments by a greater amount than lowering the price by the same amount. Hence, the income needed to qualify for a mortgage with a bought-down rate is less than the income needed to qualify for a smaller loan at the market interest rate (3).

Buy-downs have been used extensively by builders to increase the number of eligible

[6] See footnote 1 on p. 7.

buyers. Authorization for buy-down use with FHA-insured mortgages and support by agencies in the secondary market (7) in mid-1981 stimulated their use.

The buy-down is typically a temporary solution to higher payments. The buyer's income may increase so that the higher payments at the end of the buy-down period are not a problem. In the presence of inflation, a buy-down smooths the stream of real payments. If interest rates drop, the buyer can refinance; any remaining subsidy funds may or may not be available to the buyer to defray the costs incurred.

Buying down the interest rate decreases tax deductions for interest payments during the buy-down period. After-tax monthly costs are reduced more for buy-down purchasers in low tax brackets than for those in higher tax brackets (3).

The cost of the buy-down may or may not be passed on to the buyer in the form of a higher price. Sellers may find that buyers are more willing to buy and to pay higher prices for houses carrying financing subsidies. On the other hand, sellers may be willing to cut their profits to complete a sale; this may be true, for example, of builders anxious to reduce carrying costs of construction financing.

The buyer who can choose between a lower price or a buy-down needs to consider the trade-offs involved. The cash value of the subsidy payments of the buy-down can be compared with the lowered price. But there are other considerations as well. Interest tax deductions during the early years of the mortgage are reduced proportionately more for the buy-down purchaser than for the buyer with a reduced price (3). The buy-down purchaser defers these deductions, needs a larger downpayment to obtain a loan to meet the larger purchase price, and incurs greater interest costs over the life of the loan. Opting for the larger debt and the buy-down translates into paying more later for the reduced initial payments (3).

Lease Purchase-Lease With Option to Buy

These techniques provide a way for a buyer with little or no cash for a downpayment to move into a house until income or financing alternatives improve. The seller retains the tax benefits of ownership and receives money for the monthly mortgage payments.

With a lease purchase agreement, a standard purchase agreement is negotiated, but the effective date of sale is left open for a specified period of time. The buyer pays the seller monthly rent plus a nonrefundable consideration for the option to purchase. Both will be credited toward the downpayment on the option purchase price. Should the buyer decide not to purchase, the rent and consideration funds are forfeited.

The lease with "option-to-buy" agreement is more typical with rental property. In contrast to the lease purchase agreement that obligates the renter to buy, the lease option agreement provides the renter the choice of eventually buying or not. The renter has an opportunity to familiarize himself with the neighborhood and the property and to decide if he wants to buy. There is generally no sales contract. The renter/potential buyer has the option to buy while the lease is in effect. There may or may not be consideration paid for this option. All or part of any deposit and/or rental payments may be credited toward the purchase price. If the option is not exercised, the rent and any consideration paid are forfeited.

Sometimes the agreement stipulates that the seller will finance the sale or extend the option if a mortgage with specified terms can't be obtained. A particular advantage for potential buyers is that the sales price is usually agreed upon for the duration of the purchase/lease contract.

Title does not pass to the buyer until settlement and the option may or may not be recorded. Landlords are usually reticent to record options to buy because they don't want to cloud their title with agreements that frequently are not exercised. Sellers must examine their loans for due-on-sale clauses that can be enforced with lease purchase agreements. The Garn-St. Germain Act stipulated that a lease of 3 years or less that does not contain an option to purchase will not trigger such enforcement. Potentially serious buyer/renters should verify that the seller/landlord owns marketable title to the property.

Land Lease

The buyer purchases only the house and leases the land with a land lease. Because the value of the land is not financed, the required downpayment may be substantially lower. The lease, which may run the length of the mortgage on the house or for as long as 99 years, may contain an option to buy so that rental payments are credited toward the eventual purchase of the land (see previous section). In some cases rental payments are indexed or rise according to a preset schedule.

Land leases are common in Britain, Canada, and Hawaii. They are also used in parts of Maryland; hence the name "Baltimore land leases."

The land lease enables the buyer to take title and occupy the house with little cash while waiting for an improvement in his personal finances and/or for better terms on available financing. The inclusion of a purchase option may offer the further advantage of locking in the price of the land.

Although there are exceptions, lease payments are not tax deductible. Making the lease assignable can prevent problems in the event the buyer chooses to sell the house.

Exchange

An exchange of similar properties may provide an alternative to outright sale and thereby allow would-be buyers to move into different residences. This may be particularly important in a situation where relocation is a necessary part of changing jobs. Exchanges are more common in real estate transactions with properties held for business and investment purposes where tax advantages can be substantial. It can be much more difficult to match the needs and desires of two parties and their properties for the purpose of trading homes. Compromise is more necessary than is typical in the case of a standard sale and purchase. Additional financing is often necessary too; one party may take back a second trust deed or mortgage to balance the equities in the houses. Despite the compromises and potential difficulties, sufficient interest has been generated that exchange networks have been started by realtors.

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Some New USDA Publications

The following are for sale from the Superintendent of Documents, U.S. Government Printing Office, Washington, D.C. 20402, (202) 783-3238.

- FOOD CONSUMPTION: HOUSEHOLDS IN THE UNITED STATES, SEASONS AND YEAR 1977-78. June 1983. Stock No. 001-000-04335-8. $7.50.

- IRON CONTENT OF FOOD. Revised April 1983. Stock No. 001-000-04331-5. $2.75

- CONSERVING THE NUTRITIVE VALUES IN FOOD. Revised April 1983. Stock No. 001-000-04304-8. $2.25.

- FOOD PURCHASING GUIDE FOR GROUP FEEDING. Revised June 1983. Stock No. 001-000-04353-6. $5.00.

Characteristics of New Housing, 1982

An annual joint publication of the U.S. Department of Commerce, Bureau of the Census, and the U.S. Department of Housing and Urban Development, Characteristics of New Housing, 1982, provides statistics on selected physical and financial characteristics of new housing. Figures are presented for 1978-82 to allow for comparison and identification of trends. The report includes chapters on single-family and multifamily housing completed in 1982, single-family houses sold during 1982, and contractor-built houses started.

An estimated 1,006,000 new houses were completed in 1982; this represents about a 20-percent decrease from the 1981 estimate of 1,266,000. About 632,000, or 63 percent, of these completed structures were single-family houses. Continuing the trend toward smaller houses that began in 1978, the median size of single-family dwellings completed in 1982 was 1,520 square feet, compared with 1,550 square feet in 1981 and 1,655 in 1978. In addition, proportionately fewer single-family houses completed in 1982 were built with basements, garages, fireplaces, two or more bathrooms, or three or more bedrooms. The use of central air-conditioning increased in 1982, continuing a long-lasting trend. About one-half of the single-family homes completed in 1982 were heated with electricity and about 40 percent were heated with gas. The proportion heated with oil continued to decline; 3 percent compared with 8 percent in 1978 were heated with oil.

There were an estimated 374,000 new multifamily structures containing two or more units completed in 1982. Of these, about 40 percent were for sale, compared with 37 percent in 1981 and 18 percent in 1978. A decrease in median square footage of multifamily units showed up for the first time in 1982. Smaller units were also evidenced by an increase from 1981 in the proportion of units with one bedroom and a decrease in the proportion of units with two or more bedrooms. Proportionately more multifamily units completed in 1982 had air-conditioning and two or more bathrooms than in 1978.

The average sales price of new single-family houses sold rose from $62,500 in 1978 to $83,000 in 1981 and $83,900 in 1982, and varied by the type of financing. The average sales price of houses financed by FHA-insured mortgages was $61,900; prices of houses with VA-guaranteed financing averaged $72,400; while houses financed with conventional mortgages had an average sales price of $99,300. Of the houses sold in 1982, 30 percent had closing costs included in the sales price. Closing costs were included most frequently in the sales price of homes financed with VA-guaranteed mortgages (42 percent).

The average price per square foot for houses for which figures were available was $39.75 in 1982 compared with $38.20 in 1981 and $28.50 in 1978. The price index of new single-family houses of comparable quality sold in the United States rose from 157.4 in 1981 to 161.5 in 1982 (1977=100).

Single copies of Characteristics of New Housing: 1982, Construction Report C25-82-13, are available from Customer Service Publications, Bureau of the Census, Washington, D.C. 20233, for $4.25. Make check payable to "Superintendent of Documents."

Census '80 Product Primers

The Bureau of the Census is publishing a series of booklets to make it easier to use the statistics from the 1980 census. The Bureau's College Curriculum Support Project will develop a primer for each of the major 1980 census products. The primers are prepared primarily for college-level instructors, but are useful for self-study as well. Each primer includes background information on the content of the data product, exercises suitable for classroom use designed to teach census concepts and data use skills, a presentation outline with additional references, and answer keys for each exercise.

Seven product primers have been issued so far. The first five primers focus on the Number of Inhabitants (PC80-1-A) State reports, the General Housing Characteristics (HC80-1-A) reports, the Advance Estimates (PHC 80-S2) reports, the Block Statistics (PHC 80-1) reports, and the General Population Characteristics (PC80-1-B) reports, Primers 6 and 7 feature two microfiche products that summarize Summary Tape Files (STF's) 1 and 3.

The primers, which are $1 per single copy (25-percent discount on orders of 100 or more going to a single address), may be ordered from the Data User Services Division, Customer Services Division, Bureau of the Census, Washington, D.C. 20233.

Statistical Abstract of the United States, 1982-83 and USA Statistics in Brief

The over 1,600 tables and charts in this 103rd edition of the Statistical Abstract provide a socioeconomic picture of the United States, with data from over 250 government and private agencies. Statistics for the most recent year, as well as historic data, allow for illustration of trends over time. Chapters cover such topics as population, vital statistics, immigration, health and nutrition, public lands, national defense, travel, prices, and welfare services. New tables include health care coverage, enrollment in private schools, lifetime earnings, and cash and noncash benefits for persons with limited income. The guide to sources lists over 1,000 statistical publications for further reference. A pocket-sized summary, USA Statistics in Brief, is included with the Statistical Abstract and is available separately.

The Statistical Abstract of the United States, 1982-83 is available in some commercial bookstores in larger cities, from the U.S. Department of Commerce district offices, and through the U.S. Government Printing Office for $15 (cloth), Stock No. 003-024-05009-9; or $11 (paper), Stock No. 003-024-05010-2. USA Statistics in Brief, the summary insert, is available separately for $0.50 from the Data User Services Division, Customer Services, Bureau of the Census, Washington, D.C. 20233.

USDA 1983 Thrifty Food Plan

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The thrifty food plan has been revised. The proposal to use the revised thrifty food plan as the basis for benefits in the Food Stamp Program appeared on July 29, 1983, in the Federal Register (6). In July 1983, the revised plan replaced the thrifty food plan developed in 1975 as the basis for the "Cost of Food at Home," released monthly by USDA. The Cost of Food at Home for July 1983 also reflects 1983 revisions of the low-cost, moderate-cost, and liberal food plans.[1]

What is the Thrifty Food Plan?

The thrifty food plan is the least costly of four food plans developed by the Human Nutrition Information Service (HNIS) in 1983. Like the more costly plans, this plan specifies the quantities of different types of foods (food groups) that households might use to provide nutritious diets for household members. The thrifty food plan includes larger proportions of the foods that are economical sources of nutrients than the other plans.

The quantities of 31 food groups suggested in the thrifty food plan for men, women, and children of different ages are shown in table 1. These quantities can be totaled for household members to determine the food plan for any household.

Why was the Thrifty Food Plan Revised?

The Department has prepared guides for selecting nutritious diets at different levels of cost for almost 50 years. Such guides, or food plans, are revised from time to time to take into account new information about nutritional needs, nutritive values of foods, food consumption, and food prices.

Quantities of food groups in the thrifty food plan were last revised in 1975 (3). The 1975 plan was based on the Recommended Dietary Allowances (RDA) released in 1974 by the National Academy of Sciences-National Research Council (NAS-NRC) and food consumption data from a nationwide food consumption survey conducted by USDA in 1965-66.

The thrifty food plan was revised in 1983 for several reasons:

- Dietary standards used in the 1975 food plan needed revision. In 1980 NAS-NRC revised the RDA (2). Recommended amounts of ascorbic acid, vitamin B_6, vitamin B_{12}, thiamin, riboflavin, phosphorus, and magnesium were changed for some sex-age categories. The major changes were increases in ascorbic acid for all categories and in vitamin B_6 for some categories. The 1980 RDA were used to define the lower limit for nutrients and the level of food energy in the plan. Also fat, cholesterol, caloric sweeteners, and sodium were controlled at moderate levels in the 1983 food plan. Of these dietary factors, only fat was controlled in the 1975 plan, although attempts were made to control the level of cholesterol by limiting the number of eggs and to control the level of sweeteners by limiting the amount of sugar and sweets.
- New information on the content of nutrients in foods has become available since 1975. Also, the nutritive values of some foods have changed since 1975. For example, the enrichment levels for certain B vitamins in bread and flour were increased in 1975. The most recent food composition data available in HNIS's Nutrient Data Bank were used to estimate the nutrient content of foods in the food plan. Levels of food energy, fat, protein, calcium, iron, magnesium, vitamin A value, thiamin, riboflavin, niacin, vitamin B_6, vitamin B_{12}, and ascorbic acid were estimated for the earlier plan; in addition, levels of zinc, phosphorus, folacin, vitamin E, cholesterol, caloric sweeteners, and sodium were estimated for the 1983 plan.

[1] For information about the other USDA food plans see Family Economics Review 1983(2): 12-21.

Table 1. *Thrifty food plan, 1983: Quantities of food for a week*[1]

Food group	Child				Male				Female[2]		
	1-2 years	3-5 years	6-8 years	9-11 years	12-14 years	15-19 years	20-50 years	51 years and over	12-19 years	20-50 years	51 years and over
						Pounds[3]					
Vegetables, fruit:											
Potatoes (fresh weight)	0.47	0.82	1.04	1.11	1.29	2.22	1.50	1.55	1.27	1.16	0.90
High-nutrient vegetables	.52	.67	1.05	1.17	1.65	1.08	1.61	1.52	1.14	1.91	2.28
Other vegetables	.60	.70	.97	1.25	1.35	1.15	1.86	1.33	1.08	2.68	2.03
Mixtures, mostly vegetable; condiments	.01	.02	.05	.07	.02	.06	.13	.06	.07	.02	.02
Vitamin-C-rich fruit[4]	1.19	1.24	1.32	1.62	1.08	1.17	1.13	1.00	2.02	1.73	1.35
Other fruit[4]	.97	.92	1.61	1.86	1.11	1.04	1.20	1.41	1.30	.93	1.37
Grain products:											
Whole-grain/high-fiber breakfast cereals	[5].44	.33	.17	.24	.38	.27	.17	.13	.30	.12	.17
Other breakfast cereals	[5].30	.27	.19	.26	.05	.12	.21	.12	.39	.19	.27
Whole-grain/high-fiber flour, meal, rice, pasta	.11	.14	.12	.11	.20	.22	.15	.21	.16	.15	.18
Other flour, meal, rice, pasta	.88	1.23	1.85	1.73	2.15	2.34	1.81	1.87	1.32	1.81	1.32
Whole-grain/high-fiber bread	.09	.10	.09	.11	.15	.17	.24	.21	.21	.34	.29
Other bread	.38	.65	1.01	1.27	1.68	1.33	1.85	1.33	1.04	.59	.29
Bakery products, not bread	.06	.10	.42	.58	.19	.43	.56	.30	.36	.12	.10
Grain mixtures	.08	.06	.07	.11	.02	.13	.23	.15	.31	.37	.19
Milk, cheese, cream:											
Milk, yogurt (quarts)[6]	3.42	3.06	3.39	4.17	3.99	3.91	2.00	1.63	4.36	2.37	2.17
Cheese	.04	.05	.08	.11	.11	.11	.13	.12	.27	.29	.32
Cream, mixtures mostly milk	.15	.15	.34	.30	.10	.24	.41	.26	.35	.03	.26
Meat and alternates:											
Lower-cost red meats, variety meats	.93	.69	.70	.92	1.20	1.49	1.40	1.73	1.75	1.60	1.95
Higher-cost red meats, variety meats	.15	.11	.13	.19	.18	.26	.39	.54	.20	.35	.55
Poultry	.35	.48	.64	.70	.90	.90	.96	.71	.20	.95	.70
Fish, shellfish	.02	.02	.02	.03	.03	.02	.04	.04	.04	.04	.04
Bacon, sausage, luncheon meats	.18	.32	.31	.24	.26	.27	.56	.49	.24	.45	.45
Eggs (number)	3.00	2.90	1.90	2.50	2.20	3.10	4.10	4.30	4.10	4.40	4.10
Dry beans, peas, lentils (dry weight)[7]	.27	.18	.18	.24	.59	.58	.45	.59	.35	.41	.43
Mixtures, mostly meat, poultry, fish, egg, legume	.05	.06	.01	.01	.02	.03	.13	.15	.20	.13	.15
Nuts (shelled weight), peanut butter	.09	.24	.13	.15	.37	.14	.17	.22	.09	.28	.08
Other foods:[8]											
Fats, oils	.14	.33	.58	.67	.73	.93	.76	.60	.22	.28	.21
Sugar, sweets	.10	.36	.78	.87	1.20	.95	1.01	.76	.31	.21	.22
Soft drinks, punches, ades (single-strength)	.39	.57	.65	.87	.87	1.51	1.17	.32	1.12	.40	.38

[1]Quantities are for food as purchased or brought into the household from garden or farm. Food is for preparation of all meals and snacks for a week. About 5 percent of the edible parts of food is assumed to be discarded as plate waste, spoilage, etc.

[2]Pregnant and lactating females usually require added nutrients and should consult a doctor for recommendations about diet and supplements.

[3]Quantities in pounds, except milk which is in quarts, and eggs which are by number.

[4]Frozen concentrated juices are included as single-strength juice.

[5]Cereal fortified with iron is recommended.

[6]Quantities of dry and evaporated milk and yogurt included as their fluid whole milk equivalents in terms of calcium content

[7]Count 1 pound of canned dry beans--pork and beans, kidney beans, etc.--as 0.33 pound.

[8]Small quantities of coffee, tea, and seasonings are not shown. Their cost is a part of the estimated cost for the food plan.

- More recent information on food eaten by men, women, and children of different ages on a nationwide basis has become available. USDA's Nationwide Food Consumption Survey 1977-78 (NFCS) provided information on the food intake of individuals in the households eligible to receive food stamps (8). It also provided detailed information on the quantities and money value of food used (purchased, home-produced, or received as gift or pay) by the total household (7). Data from this study were used to estimate the quantities of foods used to prepare meals and snacks for men, women, and children of different ages. These quantities of foods made up the food consumption patterns which were used as starting points in developing the new plan. Quantities were specified for 31 food groups, an increase from the 17 groups in the earlier plan. The number of food groups was increased to group foods with high and low content of certain dietary components not considered in the 1975 plan and to help deal with the increased use of commercially prepared foods.
- Shifts have occurred in food prices since 1975. Prices for most foods increased, but some increased more sharply than others. Prices paid by survey households in 1977-78, updated to 1981 levels, were used in revising the plan.
- Food plans for older adults were changed from individuals 55 years and over in 1975 to 51 years and over in 1983 to be consistent with the RDA age groupings. Food plans for the infant and for pregnant and lactating women were discontinued in 1983.

Data and Procedures Used in Revising the Plan

Data from the Survey of Food Consumption in Low-Income Households, conducted as part of NFCS, were used as the basis for the food consumption patterns and base food prices in the thrifty food plan development. In this part of the survey, conducted from November 1977 through March 1978, data were collected for about 4,400 housekeeping households eligible for the Food Stamp Program. Data included quantities and prices (or costs) of foods used by the household during the week prior to the household interview (7) and the food intake of household members the day before, the day of, and the day following the interview (8). Food consumption behavior and prices paid by households eligible for the Food Stamp Program were considered most appropriate as a starting point for a thrifty food plan used to determine program benefits.

The food plan was developed by starting with usual food consumption patterns calculated from survey data. This approach was used because researchers believe that a nutritious diet that disrupts usual eating habits the least is most likely to be acceptable to families. These food consumption patterns are estimated quantities as purchased of foods (classified into 31 food groups) that survey households used to prepare a week's meals and snacks for people in given sex-age categories. Each food group has an average nutritive value and price associated with it, based on selections within groups typical of those made by survey households. A computerized mathematical model was used to find the combination of food groups at a given total cost that met dietary standards for each sex-age category with the least change from quantities in food groups in the consumption pattern. This combination of food groups is the food plan for the sex-age category.

Dietary standards for the 1983 plan, based on the 1980 RDA (2), were determined after extensive study of the dietary change needed in food consumption patterns to meet various sets of standards (1, 4, 5). These standards and the rationale for their use are described in the March 1983 issue of the Journal of Nutrition Education (1). Briefly they are:

- RDA for food energy, protein, six vitamins (A, B_{12}, thiamin, riboflavin, niacin, and C), and three minerals (calcium, magnesium, and phosphorus).
- RDA for iron, except 90 percent of the RDA for the child 1 to 2 years old.
- Eighty percent of RDA for zinc, folacin, and vitamin E. Levels below RDA were used in recognition of the limited food composition

data for all three of these nutrients. Another consideration was that the U.S. food supply does not provide enough zinc and folacin to meet RDA for the population.

- 0.02 milligrams of vitamin B_6 per gram of protein in the food plan. The Food and Nutrition Board based RDA for vitamin B_6 on this ratio.
- Moderate levels of fat (35 percent of energy or less), cholesterol (350 milligrams per day or less), caloric sweeteners (12 percent of energy or less), and sodium (1,600 milligrams per 1,000 calories or less).

None of the food consumption patterns for the food plan met all of the dietary standards (table 2). Nutritional shortcomings occurred despite the fact that, in deriving the consumption patterns, quantities of food in food groups were proportionately adjusted to make the patterns provide enough food to meet the midpoint of the RDA range for energy. Calcium, zinc, iron, magnesium, and folacin were the problem nutrients. Young children, teenage girls, and women had the greatest shortages. Levels of fat, sweeteners, and sodium in consumption patterns for almost all categories exceeded the specified standards, and also exceeded the cholesterol standard. Therefore, in developing the food plans, adjustment to the patterns was required for all sex-age categories.

In the food plan there is an allowance for some discard of edible food during preparation, as plate waste, or because of spoilage. Food specified in the 1983 food plan is sufficient to provide the dietary standard for calories and nutrients for each sex-age category and to allow for some food discard.

Table 2. ***Nutritional shortcomings in food consumption patterns[1] used as a basis for the 1983 thrifty food plan***

Nutrient	Sex-age category with pattern not meeting dietary standards
Below standard:	
Calcium, zinc	Children, 1-2 years; males, 51 years and over; females 12 years and over
Iron	Children, 1-2 years; females, 12-50 years
Magnesium	Males, 15-19 years and 51 years and over; females 12 years and over
Folacin	Males, 51 years and over; females, 12 years and over
Above standard:	
Fat	Most
Sweeteners	Most
Sodium	All
Cholesterol	Primarily males, 15 years and over

[1] Estimated quantities as purchased of foods in 31 food groups used to prepare all meals and snacks for a week. Developed using data from USDA's Survey of Food Consumption in Low-Income Households.

1983 Thrifty Food Plan

Table 3 summarizes the weekly quantities of food from 11 major food groups in the food consumption patterns and the 1983 and 1975 thrifty food plans, totaled for the four-person household.

The 1983 thrifty food plan meets all dietary standards and food cost specifications. To achieve these, adjustments to food consumption patterns were required. Generally, these adjustments increased the quantities of economical food sources of those nutrients which were short of goals in consumption patterns (table 2) and contain low to moderate levels of fat, cholesterol, caloric sweeteners, and sodium.

Differences in the 1983 and 1975 thrifty food plans result from differences in both food consumption patterns and dietary standards used in their development. For most sex-age categories, lower quantities of fats, sugars, bakery products, and eggs in 1983 than in 1975 resulted partly from lower consumption of foods in these food groups by households in the 1977-78 survey than in the

Table 3. *Quantities of food for a week[1] for a 4-person household,[2] by food consumption pattern, and 1983 and 1975 thrifty food plans*

Food group[3]	Food consumption pattern	Thrifty food plan 1983	Thrifty food plan 1975
	Pounds[4]		
Potatoes (fresh weight)	4.7	4.8	6.2
Other vegetables, fruit[5]	22.7	24.2	20.6
Cereal, flour	5.3	9.3	7.3
Bread	4.2	5.5	6.9
Other bakery products	2.9	2.5	3.9
Milk, cheese, ice cream (milk equivalent in quarts)[6]	15.4	14.2	14.5
Meat, poultry, fish	17.2	10.9	8.3
Eggs (no.)	16.5	12.9	13.8
Dry beans, peas, nuts (dry, shelled weight)[7]	1.1	2.0	1.7
Fats, oils	2.2	2.3	2.6
Sugar, sweets	3.8	2.9	3.6

[1]Quantities are for food as purchased or brought into the household from garden or farm. Food is for preparation of all meals and snacks for a week. Food quantities are increased by 5 percent above the amount required to meet dietary standards for the thrifty food plan to allow for nutrients lost as discarded edible food.

[2]Man and woman 20-50 years, children 6-8 and 9-11 years.

[3]Small quantities of coffee, tea, seasonings, soft drinks, punches, and ades that are a part of the food plan are not shown.

[4]Quantities in pounds, except milk which is in quarts, and eggs which are by number.

[5]Frozen concentrated fruit juices are included as single-strength juice.

[6]Quantities of dry and evaporated milk and yogurt included as their fluid whole milk equivalents in terms of calcium content.

[7]Count 1 pound of canned dry beans--pork and beans, kidney beans, etc.--as 0.33 pound.

1965-66 survey. More meats, dry beans, vegetables, fruit, cereal, and flour were needed in the 1983 plan than in the 1975 plan, partly to help provide desired levels of folacin and zinc, nutrients not considered in the earlier plan. Lower standards for fat and newly introduced standards for caloric sweeteners and cholesterol for the 1983 plan were also factors.

Another, and perhaps more understandable, way to show the 1983 thrifty food plan is in terms of household measures of food as served on a daily basis. Selected foods in the plan for four individuals are shown in table 4.

Procedures Used to Estimate Costs

To estimate the cost of foods in the thrifty food plan, an assumption is made that families following the plan select the kinds and amounts of foods in each of the food groups that low-income survey households selected on the average. For example, the percentage of total meat used by the selected survey families that was ground beef, beef chuck, stewing beef, and so forth, is assumed in the plan. These average selections are believed to provide the most reliable basis for food guides to be used nationwide.

The average prices paid for almost 2,400 different foods are used as a basis for estimating the costs. These prices reflect differences in container size, brands, quality of food, and price levels of stores selected by low-income families.

Table 4. *A day's food as served for 4 individuals: 1983 thrifty food plan*

Food[1]	Unit	Child 6-8 years	Child 9-11 years	Woman 20-50 years	Man 20-50 years
		Number of units			
Vegetables, fruit	1/2 cup	3.4	4.0	4.9	4.3
Cereal, pasta, dry	1 oz[2]	2.7	2.9	2.6	2.7
Bread[3]	1 slice	6.2	6.7	5.8	8.4
Bakery products[3]	1 slice	.9	1.2	.3	1.2
Milk, yogurt	1 cup	1.7	2.1	1.1	.9
Cheese (per week)	1 oz	1.2	1.6	4.4	2.0
Meat, poultry, fish, boned[4]	1 oz	2.1	2.4	4.1	4.0
Eggs (per week)	no.	1.8	2.4	4.2	3.9
Cooked dry beans, peas, nuts	1/2 cup	.3	.4	.7	.7
Fats, oils	1 tbsp	2.3	2.7	.9	3.1
Sugar, sweets	1 tbsp	3.7	4.2	.7	4.9
Soft drinks, punches, ades	1 cup	.2	.2	.1	.3

[1]Excludes commercially prepared mixtures, except bread and bakery products.

[2]1 oz of dry cereal or pasta is about 1 serving.

[3]Bread is commercially prepared bread and bread assumed to be made at home from flour and meal and some milk, fat, and sugar, in terms of food as purchased. Ingredients used other than flour and meal in homemade bakery products in excess of those required to make bread are included in the group of the ingredient. Bakery products shown are only commercially prepared types.

[4]Lean parts of meat and poultry. Includes some bacon, sausage, and luncheon meats.

Cost of foods in the food plans are estimated each month by use of the following procedures:

1. Prices paid by the low-income survey households are updated by use of the percentage change in price indexes of detailed food expenditure categories from the time of the survey to the month of the estimate. Indexes for these food expenditure categories are based on prices collected each month by the Bureau of Labor Statistics (BLS) from a representative sample of stores in selected cities across the country. For example, survey households used as a basis for the thrifty food plan paid an average price of about $1.00 a pound for ground beef in 1977-78. If the index for the food expenditure category containing ground beef reported by BLS in a given month were 60 percent higher than the index reported in 1977-78, a price of $1.60 ($1.00 plus 60 percent of $1.00) would be used for ground beef in estimating the cost of the thrifty food plan for that month.

2. The updated prices for foods in each food group for each food plan are weighted by the average amounts of foods used by the survey households to derive prices per unit--pound, quart, or number--for the food groups.

3. The prices per unit are then multiplied by the number of the units of food groups in the plan for each sex-age category (table 1) to determine the cost of foods from each food group.

4. Costs for the food groups for each category are totaled. These totals, rounded to the nearest 10 cents, are released as the cost of food at home for a week. Unrounded weekly costs are multiplied by 4.333, then rounded to the nearest 10 cents to estimate the cost for the month.

The general cost level of the 1983 food plan is the same as for the 1975 food plan; however, the 1983 food plan for some sex-age categories cost more, while the plan for other categories cost less than in earlier plans. Costs for the new plans for women 51 years and over are substantially higher. The new plans for preschool-age children, teenage girls, women 20 to 50 years, and men 51 years and over are also more costly. Conversely, new plans for school-age children, teenage boys, and men 20 to 50 years are less costly. These changes in food cost relationships result from changes in food consumption patterns and the costs associated with changing patterns to meet the dietary standards for the various sex-age categories.

Sample Meal Plans

Sample meals, with recipes and lists of foods used in their preparation, have been developed for families of four persons following the revised thrifty food plan. These meal plans illustrate some of the many ways food in this revised food plan can be combined into economical and nutritious diets. Copies of the meal plans, Making Food Dollars Count--Nutritious Meals at Low Cost, USDA HG-240, are available for 50 cents from the Consumer Information Center, Pueblo, Colo. 81009.

Food Plan Development--An Ongoing Project

The maintenance of the USDA food plans--development, interpretation through publications for leaders and consumers, and periodic estimates of costs--is an ongoing project of HNIS. The food plans are evaluated and revised, as required, when new information becomes available on food consumption, food prices, food composition, and nutritional requirements.

Each food plan is only one of many combinations of food groups that could be developed at the given cost level. Amounts in food groups in the food consumption patterns could be changed in other ways to provide nutritious diets. While such other combinations would deviate further from consumption patterns, they might be acceptable to some families.

Other food plans at similar costs could be developed if selections of food groups were not assumed to be typical of the selections of survey households. If the foods within the groups were limited to those that are especially inexpensive or especially nutrient dense, the quantities in food groups in the food plans probably would not be required to deviate from food consumption to the extent the 1983 food plans do. For example, if only nonfat dry and fluid skim milk were used, the extra calories and cost of

the typical assortment of milk assumed in the 1983 food plans could be used for other foods in the food plan. For purposes of establishing food plans at different costs for use nationwide and estimating the nutrient content and cost of foods in the food plans, foods within food groups used on the average by households with different levels of food costs are believed to be most reasonable.

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Technical, Conceptual, and Administrative Lessons of the Income Survey Development Program

This publication contains papers presented at a conference in October 1982 evaluating the results of the Income Survey Development Program (ISDP). The ISDP was established in 1975 by the U.S. Department of Health, Education, and Welfare (now known as the U.S. Department of Health and Human Services) and the U.S. Department of Commerce to carry out research on measurement concepts, data collection, and data processing strategies needed for the Survey of Income and Program Participation (SIPP). The SIPP, which is scheduled to begin data collection in October 1983, will be a national longitudinal household survey to collect data on cash and in-kind income, assets and liabilities, taxes, expenses, program eligibility and participation, labor force history and status, disability, and pension coverage The SIPP will provide more comprehensive household data than either the Consumer Expenditure Survey or Current Population Survey, the primary sources of Federal data on households.

Seventeen papers that were background reading for conference participants are organized into seven chapters and cover what was learned from the ISDP and identify where further research is needed. A paper by the editor that was written after the conference, "Measuring Income and Program Participation," provides an overview by discussing the need for comprehensive income data and summarizing the papers and conference discussions. Extensive references include an annotated ISDP bibliography of materials generated over the 7-year history of the program. This publication is available for $5 from the Center for Coordination of Research on Social Indicators, Social Science Research Council, 605 Third Avenue, New York, N.Y. 10158.

Energy Efficiency Ratings Revised

The Department of Energy is revising energy efficiency ratings for labeling home appliances to reflect new average annual electricity costs.[1] Average annual electricity cost estimates are changed as frequently as once a year if costs change by more than 15 percent.

Regulations adopted as a result of the Energy Policy and Conservation Act of 1975[2] require that seven categories of home appliances carry efficiency labels: (1) Refrigerators and refrigerator-freezers, (2) freezers, (3) dishwashers, (4) water heaters, (5) clothes washers, (6) room air-conditioners, and (7) furnaces. The energy efficiency label must comply with the format developed by the Federal Trade Commission and must contain the actual test results of the average annual cost in use, the amounts and dollar values of electricity consumed, and the range of high and low values of efficiencies of comparable models. Consumers may use the information on these labels to note the relative efficiencies of models of a given year.[3]

Consumers should be warned, however, against comparing ratings among models of different years. Because electricity is one of the variables used in determining the efficiency rating of an appliance, a change in this cost estimate will result in a change in the rating even if the appliance itself has not been changed. Identical models may have different ratings reflecting only energy costs. For example, if only the energy costs increased, later models would appear less efficient than earlier models. The range of efficiency ratings of all models could also vary among years as a result of changes in energy costs, limiting cross-year comparisons.

[1]Federal Trade Commission, 1983, "Final rule revision; Rules for using energy cost and consumption information used in labeling and advertising of consumer appliances under the Energy Policy and Conservation Act," Federal Register 48(64):13972.

[2]Federal Trade Commission, 1979, "Final rule revision; Rules for using energy cost and consumption information used in labeling and advertising of consumer appliances under the Energy Policy and Conservation Act," Federal Register 44(224):66466.

[3]More information regarding home appliance labeling and the Energy Policy and Conservation Act may be found in "Consumer appliance decisions: using energy labels," by Marilyn Doss Ruffin, Family Economics Review, summer 1978 issue, p. 10.

Characteristics of Participants in Adult Education

Persons participating in adult education tend to have higher education levels, higher incomes, and higher labor force participation rates than persons who are not participating in adult education (see table). Most are white and under 55 years of age. This picture of adult education participants is based on a National Center for Education Statistics (NCES) survey which reported that 13 percent of adults 17 years of age or older participated in adult education activities at the time of the survey.[1] Adult education was defined as all courses and organized educational activities taken part time. Participants included part-time students in an elementary school, secondary school, college, or vocational school, as well as those who took a course in a non-degree program. Of the 21 million adult education participants, 1 million were also enrolled full time in another educational program.

[1]The survey, Participation in Adult Education, conducted from May 1980 through May 1981, was the fifth of the triennial series begun in 1969 by the Bureau of the Census under contract with NCES.

Sources: U.S. Department of Education, National Center for Education Statistics, 1982, Digest of Education Statistics, 1982; U.S. Department of Education, National Center for Education Statistics, 1982, Participation in Adult Education, 1981.

Selected characteristics of participants in adult education: United States, 1981

[Numbers in thousands]

Characteristic	Adults in population[1]	Participants in adult education	
	Number	Number	Percent
Total	165,830	21,252	12.8
Highest level of education completed:			
Less than 4 years of high school	51,043	2,059	4.0
4 years of high school	63,208	6,998	11.1
1-3 years of college	27,052	5,307	19.6
4 or more years of college	24,526	6,889	28.1
Annual family income:			
Less than $7,500	27,326	1,726	6.3
$7,500-$9,999	10,903	888	8.1
$10,000-$14,999	25,440	2,791	11.0
$15,000-$19,999	21,173	2,784	13.1
$20,000-$24,999	22,257	3,366	15.1
$25,000-$49,999	39,933	7,307	18.3
$50,000 and over	8,673	1,634	18.8
Not reported	10,124	755	7.5
Labor force status:			
In labor force	107,394	17,640	16.4
Employed	99,862	16,798	16.8
Unemployed	7,531	842	11.2
Not in labor force	58,436	3,612	6.2
Racial/ethnic group:			
White, non-Hispanic	135,675	18,674	13.8
Black, non-Hispanic	17,381	1,298	7.5
Hispanic	8,992	770	8.6
Other	3,816	511	13.4
Age:			
17-34 years	70,787	11,450	16.2
35-54 years	48,568	7,333	15.1
55 years and over	46,475	2,470	5.3
Sex:			
Men	77,983	9,359	12.0
Women	87,449	11,893	13.6

[1]Persons 17 years of age and over on the date of the survey.

Sources: U.S. Department of Education, National Center for Education Statistics: 1982, Digest of Education Statistics, 1982, p. 154; 1982, Participation in Adult Education, 1981, pp. 8, 19-20; 1983, The Condition of Education, p. 160.

Labor Force Statistics Derived From the Current Population Survey, a Databook

This two-volume bulletin, issued by the U.S. Department of Labor, Bureau of Labor Statistics, is the first comprehensive historical collection of national data derived from the Current Population Survey. Monthly, quarterly, and annual average statistics on the labor force status of the population are classified by a variety of demographic, social, and economic characteristics in 172 tables. Explanatory notes follow the tables in both volumes to provide detailed information on collection, concepts, definitions, historical comparability, and sample variability. Volume I contains monthly data (unadjusted for seasonality) and annual average data on the noninstitutional population, members of the armed forces, the labor force, employment, and unemployment; annual average data for industry employment cross-classified by occupation, women and blacks employed in occupations and industries, and duration of unemployment by age, sex, and race; and data collected once a year on school enrollment, educational attainment, multiple jobholding, work experience, hours of work and earnings, and the labor force status of working mothers with children. Volume II contains monthly and quarterly seasonally adjusted data for over 3,000 labor force series. The data book may be ordered from the U.S. Government Printing Office, Washington, D.C. 20402, as follows: Volume I, Stock No. 0-383-218/153, $14; Volume II, Stock No. 0-383-219/152, $12.

Health Care Coverage and Insurance Premiums of Families, 1980

In 1980, 87 percent of all families had health insurance coverage from a private or public source, or both. Multiperson families were slightly more likely (88 percent) than one-person families (85 percent) to have coverage. Health insurance coverage varied somewhat by income, labor force participation, and age of the head (see table 1). Families most likely to have coverage were those where the head was 65 years of age or over (the elderly), primarily because of the presence of public health insurance programs for this age group. Families least likely to have coverage were those earning less than $10,000 and those in which family members had inconsistent work patterns.

A majority of families in the United States (54 percent) had private health insurance only, 18 percent had both public and private health insurance, 15 percent had only public health insurance, and 13 percent had no known coverage. Multiperson families were more likely (58 percent) than one-person families (46 percent) to have private health insurance only. Although a large proportion of low-income families (income less than $10,000), unemployed families, families headed by persons in poor health, and elderly headed families had some health insurance coverage, these groups were least likely to have private health insurance only. This was particularly evident for elderly families, most of whom qualified for medicare benefits.

A majority of families with private health insurance paid at least part of their premiums; 61 percent of multiperson families and 56 percent of one-person families paid some or all of their premiums. Families that had private health insurance coverage were more likely to pay all of their premiums if they earned less than $10,000, or had no family member working, or had an elderly head of the household. These types of families are less likely to have the type of employment where health insurance premiums are provided as a fringe benefit.

Average out-of-pocket expense per year for premiums were $472 for multiperson families and $244 for one-person families. For families who paid only part of their premiums, the amount spent differed very little by income groups (see table 2);

Table 1. ***Families with health care coverage, by type of family, type of coverage, and selected characteristics, 1980***

Characteristics	Total	Families with known coverage: Total	Private health insurance only	Public health care only	Public and private	Families without known coverage
	Percent distribution[1]					
Multiperson families	100	88	58	13	18	12
1979 family income:						
Less than $10,000	100	84	21	36	27	16
$10,000-$19,999	100	89	61	9	19	11
$20,000-$34,999	100	91	77	3	11	9
$35,000 or more	100	93	80	2	11	7
Family employment status:						
No family member worked	100	94	17	38	39	6
Some family members worked but none worked every week	100	81	43	18	20	19
Only 1 family member worked every week	100	88	67	7	14	12
2 or more family members worked every week	100	90	77	3	10	10
Perceived health status of head of family:						
Poor or fair	100	91	30	27	34	10
Good or excellent	100	88	64	9	15	12
Age of head of family:						
Under 65 years	100	87	67	10	9	13
65 years and over	100	99	3	27	69	1
One-person families	100	85	46	20	19	15
1979 income:						
Less than $10,000	100	82	32	27	23	18
$10,000-$19,999	100	86	68	5	12	14
$20,000-$34,999	100	93	83	6	5	7
$35,000 or more	100	91	75	3	14	9
Employment status:						
Did not work	100	89	18	37	34	11
Worked, but not every week	100	76	54	11	11	24
Worked every week	100	84	75	3	6	16
Perceived health status:						
Poor or fair	100	88	17	41	30	13
Good or excellent	100	84	53	14	16	16
Age:						
Under 65 years	100	78	67	8	4	22
65 years and over	100	98	3	43	51	2

[1] May not total to 100 due to rounding.

Source: Dicker, Marvin, 1983, Health care coverage and insurance premiums of families: United States, 1980, NCHS National Medical Care Utilization and Expenditure Survey, Preliminary Data Report No. 3, U.S. Department of Health and Human Services, National Center for Health Statistics.

Table 2. *Average annual health insurance expenses for families with out-of-pocket expenses, by type of family, premium payment status, and 1979 family income, 1980*

1979 family income	Average out-of-pocket expenses	
	Paid all premiums	Paid part of premiums
Multiperson families:		
Less than $10,000 ...	$483	$342
$10,000-$19,999	581	387
$20,000-$34,999	750	395
$35,000 or more	900	459
One-person families:		
Less than $10,000 ...	236	179
$10,000-$19,999	312	152
$20,000-$34,999......	503[1]	185[1]
$35,000 or more	487[1]	161[1]

[1]Unreliable because of small sample size.

Source: Dicker, Marvin, 1983, Health care coverage and insurance premiums of families: United States, 1980, NCHS National Medical Care Utilization and Expenditure Survey, Preliminary Data Report No. 3, U.S. Department of Health and Human Services, National Center for Health Statistics.

partial payment of health insurance premiums by another party lowers the overall out-of-pocket cost of health insurance to the consumer and creates a uniform premium among consumers regardless of socio-economic, demographic, or health characteristics. Of families who paid the total premium themselves, out-of-pocket cost increased with family size and family income. Out-of-pocket expense ranged from $236 for one-person families earning less than $10,000 to $878 for three-person families with incomes of $20,000 or more. Larger families use greater amounts of health care resources than smaller families, and wealthier families are more able to afford high-priced, quality health insurance than lower income families.

Source: Dicker, Marvin, 1983, Health care coverage and insurance premiums of families: United States, 1980, NCHS National Medical Care Utilization and Expenditure Survey, Preliminary Data Report No. 3, U.S. Department of Health and Human Services, National Center for Health Statistics.

Characteristics of the Population Below the Poverty Level

Between 1980 and 1981, the number of persons below the poverty level rose from 29.6 million to 31.8 million, an increase of 7.4 percent. During the same period, the poverty rate rose from 13.2 to 14.0 percent. Contributing to the increase in poverty were the recession that began in mid-1981 and the 10.4-percent increase in consumer prices during that year. The poverty rate in 1981 for blacks was 34 percent, for those of Spanish origin, 26 percent, and for whites, 11 percent.

Increases in the poverty population were widespread and occurred in every region and in both metropolitan and nonmetropolitan areas. The farm poverty population, however, remained the same. A separate poverty threshold for farm families is no longer determined.[1] The average poverty threshold for a family of four persons was $9,287 in 1981, about 10.4 percent higher than in 1980.

About one-half of all families below the poverty level in 1981 were maintained by women with no husband present. Also, about one-half of all children living in households headed by women were below the poverty level, compared with about one-tenth of children living in married-couple families.

The number of poor persons 65 years and over (3.9 million) and their poverty rate (15.3 percent) remained about the same as in 1980. This was primarily due to the indexation of social security and supplemental security income to reflect high price levels.

[1]A revised definition of poverty appeared in Family Economics Review 1983(1):19.

Source: U.S. Department of Commerce, Bureau of the Census, 1983, Characteristics of the population below the poverty level: 1981, Current Population Reports, Consumer Income, Series P-60, No. 138.

Cost of Food at Home

Cost of food at home estimated for food plans at 4 cost levels, October 1983, U.S. average[1]

Sex-age group	Cost for 1 week				Cost for 1 month			
	Thrifty plan	Low-cost plan	Moderate-cost plan	Liberal plan	Thrifty plan[2]	Low-cost plan	Moderate-cost plan	Liberal plan
FAMILIES								
Family of 2:[3]								
20-50 years	$35.20	$44.20	$54.40	$67.10	$152.70	$191.80	$236.00	$290.60
51 years and over	33.30	42.30	51.90	61.80	144.80	183.30	225.00	268.00
Family of 4:								
Couple, 20-50 years and children--								
1-2 and 3-5 years	51.20	63.60	77.50	94.50	222.00	275.90	335.90	409.50
6-8 and 9-11 years	58.70	74.80	93.30	111.90	254.50	324.10	404.40	484.90
INDIVIDUALS[4]								
Child:								
1-2 years	9.20	11.10	12.90	15.50	40.00	48.30	56.10	67.20
3-5 years	10.00	12.30	15.10	18.00	43.20	53.20	65.30	78.10
6-8 years	12.20	16.20	20.20	23.60	52.90	70.00	87.60	102.30
9-11 years	14.50	18.40	23.60	27.30	62.80	79.70	102.30	118.40
Male:								
12-14 years	15.20	20.90	26.00	30.50	66.00	90.50	112.80	132.20
15-19 years	15.90	21.70	26.80	31.00	68.80	94.10	116.20	134.50
20-50 years	16.80	21.40	26.70	32.10	73.00	92.80	115.90	139.10
51 years and over	15.30	20.30	24.80	29.60	66.50	87.80	107.60	128.50
Female:								
12-19 years	15.20	18.10	21.90	26.40	65.70	78.60	94.80	114.30
20-50 years	15.20	18.80	22.80	28.90	65.80	81.60	98.60	125.10
51 years and over	15.00	18.20	22.40	26.60	65.10	78.80	96.90	115.10

[1] Assumes that food for all meals and snacks is purchased at the store and prepared at home. Estimates for the thrifty food plan were computed from quantities of foods published in Family Economics Review, 1984 No. 1. Estimates for the other were computed from quantities of foods published in Family Economics Review, 1983 No. 2. The costs of the food plans are estimated by updating prices paid by households surveyed in 1977-78 in USDA's Nationwide Food Consumption Survey. USDA updates these survey prices using information from the Bureau of Labor Statistics (CPI Detailed Report, table 3) to estimate the costs for the food plans.

[2] Coupon allotment in the Food Stamp Program based on this food plan.

[3] 10 percent added for family size adjustment. See footnote 4.

[4] The costs given are for individuals in 4-person families. For individuals in other size families, the following adjustments are suggested: 1-person--add 20 percent; 2-person--add 10 percent; 3-person--add 5 percent; 5- or 6-person--subtract 5 percent; 7- or more-person--subtract 10 percent.

Consumer Prices

Consumer Price Index for all urban consumers [1967 = 100]

Group	Oct. 1983	Sept. 1983	Aug. 1983	Oct. 1982
All items	302.6	301.8	300.3	294.1
Food	292.9	292.6	292.2	287.0
Food at home	282.3	282.5	282.5	279.4
Food away from home	323.9	322.2	321.0	310.7
Housing	326.8	326.4	324.8	210.7
Shelter	349.8	348.5	346.6	342.8
Rent, residential	240.4	239.5	238.2	228.9
Fuel and other utilities	374.4	376.4	375.1	363.4
Fuel oil, coal, and bottled gas	624.7	623.2	619.0	677.2
Gas (piped) and electricity	435.6	440.5	439.1	413.4
Household furnishings and operation	239.4	238.9	238.0	235.4
Apparel and upkeep	200.7	200.4	197.3	195.5
Men's and boys'	192.1	190.8	188.3	188.6
Women's and girls'	168.6	168.8	164.2	163.0
Footwear	208.6	208.0	205.7	206.8
Transportation	305.0	303.7	302.4	295.5
Private	300.4	299.2	298.0	291.1
Public	368.2	366.6	365.0	356.3
Medical care	362.9	361.2	360.0	338.7
Entertainment	249.1	247.5	246.6	240.3
Other goods and services	296.8	294.4	289.0	271.2
Personal care	263.3	263.0	262.1	252.9

Source: U.S. Department of Labor, Bureau of Labor Statistics.

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